

## Message Text

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INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

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FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 9940

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

UNCLAS PRETORIA 6897

E.O. 11652: N/A

TAGS: ECON, SF

SUBJ: HIGHLIGHTS OF RESERVE BANK QUARTERLY REPORT

1. SUMMARY: REPORT OF SOUTH AFRICAN RESERVE BANK FOR THIRD QUARTER OF 1977 ACKNOWLEDGED THAT DECLINE IN ECONOMIC ACTIVITY CONTINUED ALTHOUGH CLAIMED DOWNSWING HAS LOST MOMENTUM. GDP DECLINED SLIGHTLY FROM PREVIOUS QUARTER WHEN EXCELLENT AGRICULTURAL RESULTS WERE RECORDED. A CURRENT ACCOUNT SURPLUS OF R209 MILLION WAS ACHIEVED, BUT THIS WAS LOWER THAN THE R361 MILLION OF THE SECOND QUARTER. THE CAPITAL ACCOUNT OUTFLOW CONTINUED (R253 MILLION), ALTHOUGH THERE WAS A NET INFLOW OF LONG-TERM CAPITAL. THE PRICE INDEX ROSE AT A LESS RAPID RATE OF 10.8 PERCENT. WITH THE BALANCE OF PAYMENTS SITUATION REMAINING DELICATE AND THE BANK RECORDING A CONTINUED LOW LEVEL OF ECONOMIC ACTIVITY, THE PROSPECTS FOR 1978 SEEM BLEAK. END SUMMARY

2. NATIONAL ACCOUNTS: AFTER HAVING INCREASED MARKEDLY DURING THE SECOND QUARTER, REAL GDP DECLINED MODERATELY  
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DURING THIRD QUARTER OF 1977, A DECLINE DUE ENTIRELY TO DECREASED AGRICULTURAL PRODUCTION, FOLLOWING EXCEPTIONALLY LARGE HARVEST IN SECOND QUARTER. INCREASES IN THIRD QUARTER REAL INCOME GENERATED BY NON-GOLD MINING, AUTO INDUSTRY AND SERVICES WERE OFFSET BY DECLINES IN GOLD MINING, MANUFACTURING, CONSTRUCTION AND WHOLESALE AND RETAIL TRADE.

3. REAL GROSS NATIONAL PRODUCT DECLINED DURING THIRD QUARTER TO A LEVEL SLIGHTLY HIGHER THAN IN FIRST QUARTER OF 1977 OWING TO WEAKENING OF TERMS OF TRADE. HOWEVER, BANK PROJECTS THAT FOR CALENDAR YEAR 1977 AS A WHOLE TERMS OF TRADE WILL IMPROVE LARGELY AS A RESULT OF INCREASE IN GOLD PRICE AND THAT REAL GNP WILL INCREASE SLIGHTLY, COMPARED WITH A DECLINE OF ONE PERCENT DURING 1976.

4. PRICES: CONSUMER PRICE INDEX ROSE BY 10.8 PERCENT (ANNUAL RATE) IN THIRD QUARTER DOWN FROM 9.8 PERCENT IN THE SECOND QUARTER AND 13.3 PERCENT IN THE FIRST QUARTER, OWING TO LOWER RATES OF INCREASE IN PRICES OF FURNITURE, ELECTRICAL EQUIPMENT, AUTOMOBILES, MEAT AND VEGETABLES.

5. THE RISE IN THE WHOLESALE PRICE INDEX OF DOMESTIC CONSUMPTION GOODS SLOWED SIGNIFICANTLY TO 6.3 PERCENT, FROM 16.0 PERCENT IN THE FIRST QUARTER AND 13.3 PERCENT IN SECOND.

6. BUSINESS CYCLE: RESERVE BANK RECORDED A CONTINUED DECLINE IN REAL ECONOMIC ACTIVITY DURING THIRD QUARTER BUT SAW SIGNS THAT DOWNSWING HAD LOST MUCH OF ITS MOMENTUM. AS EVIDENCE OF THIS THE RESERVE BANK SAYS THAT REAL ECONOMIC ACTIVITY IN THE NON-AGRICULTURAL SECTORS OF THE ECONOMY MODERATELY INCREASED DURING THE

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SECOND QUARTER OF 1977 AND MAINTAINED THIS LEVEL IN THE THIRD QUARTER.

7. EMPLOYMENT: REGISTERED UNEMPLOYED AMONG WHITES, COLOREDS AND ASIANS ( SEASONALLY ADJUSTED) ROSE FROM 22,000 IN DECEMBER 1976 TO 33,600 IN OCTOBER 1977. BANK DEDUCES BLACK UNEMPLOYMENT ALSO ROSE SHARPLY ALTHOUGH BLACK LABOR IN MINES WAS UP 6.6 PERCENT DURING FIRST SIX MONTHS.

8. BALANCE OF PAYMENTS: CURRENT ACCOUNT REMAINED IN SURPLUS FOR THIRD CONSECUTIVE QUARTER, ALTHOUGH THIRD QUARTER SURPLUS OF R209 MILLION WAS NOTABLY SMALLER THAN R361 MILLION ACHIEVED IN SECOND QUARTER.

9. AT A SEASONALLY ADJUSTED ANNUAL RATE, SURPLUS ON CURRENT ACCOUNT DECLINED FROM R1277 MILLION IN SECOND QUARTER TO ONLY R22 MILLION IN THIRD QUARTER AFTER UNINTERRUPTED IMPROVEMENT SINCE EARLY 1976.

10. AFTER VALUE OF MERCHANDISE IMPORTS HAD DECLINED FOR FIVE CONSECUTIVE QUARTERS, IT INCREASED AT A SEASONALLY ADJUSTED ANNUAL RATE, FROM R6551 MILLION IN THE SECOND QUARTER TO R7313 MILLION IN THE THIRD QUARTER OF 1977. RISE WAS MAINLY ACCOUNTED FOR BY HIGHER IMPORTS OF OIL

AND OF TRANSPORT EQUIPMENT ASSOCIATED WITH CONTAINERIZATION PROGRAM.

1. MERCHANDISE EXPORTS DECLINED FROM A SEASONALLY ADJUSTED ANNUAL FIGURE OF R6436 MILLION IN THE SECOND QUARTER TO R6072 MILLION IN THE THIRD QUARTER OWING TO LOWER WORLD COMMODITY PRICES. ANOTHER FACTOR WAS A DECLINE IN NET GOLD OUTPUT FROM R2800 MILLION IN SECOND QUARTER TO R2626 MILLION IN THE THIRD QUARTER OF 1977. AVERAGE MONTHLY PRICE, HOWEVER, INCREASED SHARPLY FROM \$140.73 IN JUNE TO \$149.43 IN SEPTEMBER AND \$158.86 IN OCTOBER.

12 A FURTHER NET OUTFLOW OF FOREIGN CAPITAL OCCURRED  
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DURING THIRD QUARTER OF 1977, BUT AMOUNT OF R253 MILLION WAS SMALLER THAN THE R495 MILLION FOR THE PRECEDING QUARTER. PRIVATE LONG-TERM CAPITAL HAD A NET INFLOW OF R142 MILLION, REFLECTING LONG-TERM LOANS FOR SASOL II AND PURCHASE OF SHIPS. A FURTHER SUBSTANTIAL OUTFLOW (R312 MILLION) OF SHORT-TERM CAPITAL OCCURRED, INCLUDING UNRECORDED TRANSACTIONS.

13. GROSS GOLD AND OTHER FOREIGN RESERVES DECLINED BY R36 MILLION DURING THE THIRD QUARTER TO A LEVEL OF R837 MILLION AT THE END OF SEPTEMBER.

14. COMMENT: DESPITE CONTINUED DEEP RECESSION, SECOND QUARTER'S EXCELLENT RESULTS ON CURRENT BALANCE OF PAYMENTS WERE NOT MATCHED IN THIRD QUARTER. IMPORTS INCREASED BY 11 PERCENT AFTER FIVE QUARTERS OF DECLINE WHILE EXPORT DECLINE OF 6 PERCENT IS ATTRIBUTED TO LOWER DIAMOND SALES AND TAPERING OFF OF INITIAL SURGE IN IRON ORE AND COAL EXPORTS FROM NEW PORTS.

15. DURING THE QUARTER, GOVERNMENT ANNOUNCED ITS SELECTIVE STIMULATION PROGRAM WHICH AMOUNTED TO LITTLE MORE THAN R250 MILLION FOR NON-WHITE HOUSING OVER MORE THAN TWO YEARS. PAY INCREASE OF 5 PERCENT FOR CIVIL SERVICE JUST ANNOUNCED COULD ADD R200 MILLION. IT IS NOW FORSEEN THAT THIS IS ALL GOVERNMENT WILL RISK IN VIEW OF CONTINUED DELICATE BALANCE OF PAYMENTS SITUATION. POSITION CANDIDLY SUMMARIZED IN RECENT SPEECH BY DEPUTY PRESIDENT OF RESERVE BANK DE KOCK: "... NEW LOSS OF MOMENTUM IN WORLD ECONOMIC UPSWING AND RECENT POLITICAL DEVELOPMENTS, INCLUDING ARMS BOYCOTT AND THREAT OF SANCTIONS... ARE UNDERSTANDABLY DETRACTING FROM OUR FINE BALANCE OF PAYMENTS PERFORMANCE, PREVENTING OUR... RESERVES FROM RISING AND RETARDING OUR  
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NW DOMESTIC UPSWING." BOWDLER

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